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GREATER ATTENTION TO FINANCIAL AND ECONOMIC WORK AT ELECTRIC
POWER PLANTS

F. A. Moskovskiy

The reconstruction and development of the national economy in the postwar period must introduce a stringent regime of economy, a strengthening of cost accounting, and improvement of the financial and economic work of enterprises. It was toward this end that the government directed the heads of enterprises and other economic organizations to pay special attention to questions of economy and to take remedial measures as a result of examination of the managerial work of enterprises.

Results of the work of the electric power system during 1946 and the first quarter of 1947 give evidence of the fact that managerial staffs have not yet paid sufficient attention to the improvement of the operations of power-generating enterprises, and that many managers of electric power plants and power systems lack the necessary concern for economy of state resources, and for proper utilization of internal resources and lowering of costs.

In 1946 a number of power systems improved their work and attained a lowering of production costs and showed improvement in the financial indexes of the work of electric power plants. However, in a majority of the power plants, economic indexes were negative. This condition continued in the first quarter of 1947.

The most important index of the work of a power plant, as for every industrial enterprise, is the fulfillment of the plan for lowering the costs of production. For 1946 the power system was given the task of lowering the cost of electric and thermal power by 1.3 percent, but in fact, electric stations increased their costs by 2.3 percent, which in terms

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of money represents an overexpenditure of 84 million rubles (after an allowance for price-rise factors) as against the plan. Table 1 indicates plan fulfillment as to costs by individual main administrations.

Table 1

	Assigned % of Decrease (-) or Increase (+) in Cost	Actual % of Decrease or Increase	Increase or Decrease in Absolute Figures, Compared with 1945, in Millions of Rubles	Increase or Decrease Compared with the Plan, in Millions of Rubles
Glavtsentrenerg (Main Central Power System)	+ 2.6	+ 4.9	+ 41.2	+ 20.5
Glavyushenerg (Main Southern Power System)	- 6.1	- 4.5	- 38.4	+ 14.5
Glavvostokenerg (Main Eastern Power System)	- 2.6	+ 0.6	+ 2.9	+ 14.2
Glavuralenerg (Main Ural Power System)	+ 0.9	+ 1.4	+ 7.1	+ 3.5
Mosenerg (Moscow Power System)	- 4.6	- 0.6	- 4.6	+ 29.1
Total for Main Power Systems	- 1.3	+ 2.3	+ 75.1	+ 84.0

The greatest decrease in cost in comparison with 1945 was shown by enterprises of Glavyushenerg, which, however, had an overexpenditure of 14.5 million rubles above the 1946 plan; Mosenerg did not fulfill its plan for lowering costs and permitted the largest overexpenditure above the 1946 plan, amounting to 29.1 million rubles.

An analysis of costs of electric and thermal power according to the given calculations discloses the reasons for nonfulfillment of planned tasks in lowering costs, establishes the amounts of overexpenditures and shows that there existed great opportunities for lowering production expenditures, had there been proper and expert leadership of the industry.

The basic factors influencing increase or decrease in cost of electric power during 1946 and the first quarter of 1947 are as follows:

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Cost Increase FactorsFor 1946 For the First Quarter of
1947

(In Millions of Rupees)

1. Loss of energy in the networks	43.2	19.4
2. Overexpenditure of fuel	11.3	---
3. Increase in cost of fuel	---	6.4
4. Increased cost of purchased energy in comparison with planned prices	---	5.5
5. Overexpenditure for maintenance	15.3	3.0
6. Nonproductive expenditures	32.3	5.3
7. Overexpenditure for general plant expenditures	11.5	3.2
8. Overexpenditures for outside services and auxiliary production	10.0	2.5
9. Nonfulfillment of program for production of energy	49.7	---
10. Overexpenditure for other operative costs	<u>24.5</u>	<u>6.3</u>
Total	197.9	51.6
Total	197.9	51.6

Cost Reduction Factors

1. Economy of electric power used by plants themselves	2.6	0.9
2. Economy in fuel	---	0.1
3. Increase of power output by hydroelectric plants	31.0	5.2
4. Purchased energy	29.7	---
5. Reduced cost of fuel	10.7	---
6. Economy in wages	11.1	0.4
7. Economy in commercial expenditures	0.3	0.7
8. Other cost reduction factors	<u>---</u>	<u>0.2</u>
Total	85.4	7.5

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The above figures indicate that the power systems have much room for cost reduction in improved operation of electric power plants and networks and also in improved management of enterprises.

Increasing the operating capacity would make it possible to increase the usable output of power to consumers and thus lower costs and save large amounts for the state.

Reducing technical and commercial losses in the networks would save the power systems many millions of rubles.

From the above analysis it is apparent that during 1946, losses in the networks amounted to 43.2 million rubles, of which the losses of the Mosenergo system alone amounted to 20.3 million rubles.

It is necessary to note that in the first quarter of 1947 there was observed a relative increase of losses in the networks, which is evidence of the failure to take steps to liquidate the abnormal condition which causes such significant damage to the national economy.

Nonproductive expenses arising, for the most part, from unbusinesslike management also appear as a great burden on cost economy. This category of expenditure increased considerably in 1946 in comparison with 1945, as is apparent from data given in Table 2.

Table 2
(In Millions of Rubles)

	Total for 1945	Fines for Idling Rd Cars	Fines, Penalties, and Forfeitures for Breach of Contract	Shortages and Damaged Materials in Stock	Shortages in Fuel Deliveries	Others	Total
Glavtsentrenergo	7.5	10.8	2.9	0.5	0.8	0.8	15.8
Glavyuzhenergo	4.4	1.6	3.6	0.6	0.1	0.3	6.2
Glavvostokenergo	2.5	0.9	2.0	0.3	-	0.1	3.3
Glavuralenergo	2.7	1.1	1.5	0.6	0.1	-	3.3
Mosenergo	3.7	3.0	1.3	0.2	1.8	0.9	8.3

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There was a large increase in nonproductive expenditures during 1946 in the Glavtsentrenergo and Mosenergo systems. TETs/thermo-electric central/ No 11 of Mosenergo attracts special attention because of the size of its nonproductive expenditures. In 1946 they amounted to 2,735,000 rubles, representing 33 percent of the total nonproductive expenditures for the whole Mosenergo system.

Especially large at this plant were the fines for an excessive number of idle cars, 1,356,000 rubles or 45 percent of the total fines of this category for the whole system, and for shortages of delivered fuel, which amounted to 1,099,000 rubles or 61 percent of the total shortages recorded for the whole system.

Fines for excessive idle cars in Glavtsentrenergo reached the imposing sum of 10.8 million rubles and were imposed, for the most part, in the following systems: Gorenergo (4.8 million rubles), Kazan'energo (2.2 million rubles), Yarenergo (1.2 million rubles), and Lenenergo (0.8 million rubles).

The principal reasons for the assessment of fines and other non-productive expenditures in most cases are unbusinesslike conduct of affairs and failure to take steps to eliminate the causes which bring about excessive nonproductive expenditures.

At Gogres (Director Yshelev) a huge penalty was paid to Torfortrest (Peat Trust) for excessively idle narrow-gauge cars because of contract conditions under which payment of penalty was called for not because of poor work at the station, but because of difficulties in unloading peat into bunkers. It is clear that such a contract between a supplier and a consumer must be renegotiated because it is unduly burdensome for one of the parties and does not stimulate the productive forces of an enterprise.

At the Kazan' TETs No 2 (Director Bilan) incoming fuel was not checked weighed, as a result of which the station showed a shortage in deliveries amounting to 436,000 rubles in 1946.

Beside poor organization in receiving fuel, the absence of scales at many electric stations and the consequent failure to weigh-in fuel is a basic reason why the electric stations are forced to take upon themselves the cost of shortages in fuel. The fact of the matter is that railroads sign commercial documents relating to shortages for only up to 10 percent of the fuel delivered and electric power plants can present their claims only within such limits.

The fuel-transport administration of the Ministry [of Power Plants] must obtain a re-examination of the system whereby power plants must suffer great losses from shortages of fuel while suppliers and railroads, who are guilty of the shortages, carry no responsibility whatsoever.

Direct mismanagement and absence of proper accounting explain the shortages and damaged materials in stocks amounting to 2.8 million rubles in 1946.

At TETs No 8 of Mosenergo (former director, Marinchev) damage of materials and inventory at warehouses amounted to 38,000 rubles.

Improvement in accounting for material property and careful attention to the utilization of material resources will permit electric power plants to avoid extra nonproductive expenditures caused by shortages and damage in materials of at least 2.5 to 3 million rubles.

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Violation of finance accounting by a majority of power plants is apparent from the analysis given of cost increase factors.

Articles of general expenditures which are determined by the enterprises were allowed by many power plants to be expended considerably in excess of estimated allotments.

Gross violations of finance accounting leading to overexpenditure take place to this day at some power plants.

Facts concerning mismanagement, disclosed by a documentary audit at the Chkalov GES in 1946, can serve as an example of an irresponsible attitude to expenditure of state resources. There, the director, Comrade Akhonin, did not concern himself at all with financial matters, turning over this part of the work to other persons, as a result of which over 500,000 rubles were spent illegally at that station.

Thus, in addition to the base wages paid to engineer-technical workers and employees, 128,000 rubles was paid for work within the sphere of their duties, in addition to payments of 108,000 rubles for overtime work to the same engineer-technical workers and employees when additional workers were available for overtime work. Deputy Director Dmitriyev of the same GES purchased from private individuals at higher prices various materials amounting to 44,000 rubles.

It must be pointed out that only on condition that enterprises of the power system can keep within estimated allotments of administrative-managerial and other expenditures can they save many millions of rubles of excess overhead expense from cost and thereby ensure the reduction of the cost of production.

The overexpenditure for maintenance amounting to 15.3 million rubles in 1946 and 3 million rubles in the first quarter of 1947 deserves attention.

The reason for such an overexpenditure is to be found in the lack of economy in the expenditure of materials, failure to assign proper work loads to those assigned to repair work, and lack of technical supervision to make sure that parts are replaced in due time.

Electric power plants do not concern themselves sufficiently with questions of costs of their own auxiliary services and of those from the outside. In fact, a lowering of costs of their own transport services, and costs for chemical, electrotechnical and other laboratories, systematic planning of these services, and strict control over expenditures for auxiliary work and the cost of outside services would permit considerable economy and thus reduce the cost of producing electric and thermal power.

However, there are managers in the power system who not only do not think about control and the practice of economy but permit outright waste of the State's resources, paying for all kinds of outside services without control. Thus, according to vouchers, the manager of Armenergo, Comrade Perikhanyan, in 1946 paid out to private individuals for loading and unloading work the extraordinarily large sum of 80 thousand rubles; for cutting 726 square meters of window glass, 7,260 rubles; for guarding coal for a period of 22 days at 150 rubles a day, 3,300 rubles; for loading a car with six reels of wire, 4,560 rubles, etc.

Overexpenditure for outside services and for services for auxiliary work to the extent of 10 million rubles in 1946 and overexpenditure of 2.5 million rubles in the first quarter of 1947 indicates the opportunity for lowering costs in this field.

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Increases in costs because of electric power purchased from block stations were repeatedly noticed. As can be seen from the figures, this increase in cost accounted for 5.5 million rubles in the first quarter of 1947 and it came about because of the absence of control over prices for purchased power.

Rayon administrations are obliged to regulate account relationships with block stations and to establish prices for purchased power at no more than its planned cost. Increased production of the plants themselves or fulfillment of the plan for production lowers the cost of power to a considerable extent; meanwhile, nonfulfillment of planned production in 1946 increased costs by 49.7 million rubles.

Along with cost-increase factors there are cost-reduction factors, some of which depend upon improvement in the work of power-plant personnel.

These factors include economy in the electric power consumed for the plant's own use and reduction in the cost of fuel during 1946. It must be noted that in relation to this last factor, electric power plants would have had large savings and would not have suffered an overexpenditure in the first quarter of 1947 if they had presented claims to their suppliers for full compensation called for by the reduced quality of fuel.

Increase in production of electric power at hydroelectric plants has much bearing on reduction of cost. This factor was very effective in the Mosenergo system where economy from increased production of electric power from hydroelectric stations amounted to more than 20 million rubles.

Strict control of account payments and of surplus material reserves may prove to have a substantial effect on production and consequently on cost. It must be noted that raising the reserve of material above the established standard, especially where there are poor warehouse facilities, leads, in the first place, to spoilage and shortage of materials, as was shown in the example given of TETs No 8 of Mosenergo, and, secondly, to the reduction in turnover of resources, which in its turn weakens the financial position of the electric power station, results in delay in payment of accounts, and in payment of fines, penalties, and forfeitures for breach of contract which are carried over, in the final analysis, to costs.

The work of mobilizing internal resources and the elimination of unneeded materials at electric stations has proceeded unsatisfactorily in 1946 and in the first quarter of 1947. Many electric power plants not only did not fulfill their assignment for reducing reserves of materials but increased them considerably above the approved norms.

The growth of material reserves in relation to what is allowed by schedule is shown in Table 3.

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Table 3

(In Millions of Rubles)

		Accessory Materials	Spare Parts Exceeding Norm		Low Value Items	
	As of 1 Jan 1947	First Quarter 1947	1 Jan 1947	First Quarter 1947	1 Jan 1947	First Quarter 1947
Glavtsentrenergo	+ 11.8	+ 12.8	+ 9.8	+ 10.0	+ 5.9	+ 11.6
Glavyuzhenergo	+ 7.1	+ 7.9	+ 8.2	+ 7.0	+ 0.8	+ 0.6
Glavvostokenergo	+ 8.3	+ 9.3	+ 8.6	+ 8.9	+ 1.5	+ 0.7
Glavuralenergo	+ 7.9	+ 9.0	+ 11.9	+ 13.8	+ 1.5	+ 1.6
Mosenergo	+ 6.8	+ 8.5	+ 10.0	+ 12.4	+ 3.1	+ 3.5
Total for All Main Power Administrations	+ 41.8	+ 47.5	+ 48.6	+ 54.1	+ 11.2	+ 18.0

The above figures show the significant growth of reserves of principal types of materials which arises as a result of poor reporting and poor handling of surpluses and of items which the plants cannot use.

With a total excess of 27.5 million rubles above normal in accessory materials, spare parts and low-value items in the Glavtsentrenergo system on 1 January 1947, only 3 million rubles worth, which represents about 11 percent of the total surplus, was declared as surplus or unusable (nelikvidy) items.

Mosenergo electric power stations, with a total excess of 20 million rubles above norm, declared surplus and movable items to the amount of 3,800,000 rubles or 19 percent of the total surplus.

Because of this slow tempo in disposing of surplus materials, electric power plants have accumulated large stocks of various types and items of material that have not been moved for a long period. Thus, for example, condenser pipes, valued as follows, were held in stock without movement since 1941:

Krasnogorskiy TETs, 453,000 rubles; TETs No 1 of Kazan'energo, 260,000 rubles; Chkalov GRES, 247,000 rubles; Chelyabinsk GRES, 192,400 rubles; Orsk TETs, 101,400 rubles.

The above examples showing the accumulation of surpluses make it imperative for the directors of electric power plants to pay the most careful attention to the problem of disposing of surplus and nonusable materials, so that in the shortest time possible the list of goods on hand may be re-assessed and those surpluses which burden the balance sheets of enterprises may be liquidated. It is especially necessary that this be done because at several electric power plants material accounts are distorted due to improper entry of items which have lost their original values. Thus, in certain plants bookkeeping departments enter as stock used parts which have

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been replaced in making capital repairs, but which are still listed in their original valuation, thus incorrectly reducing the cost of capital repairs. It is evident that such a practice leads to the fictitious increase in the value of spare parts. Spare parts formerly used must be assigned a price and in case of a complete lack of suitability for further use, they must be entered as scrap at a value that can be actually realized.

Premature penalties and an increase of debit and credit accounts receivable retard the turnover of the stock of an enterprise, necessitate paying fines for untimely liquidation of accounts, and consequently exert a considerable influence not only on the financial condition of the concern, but on the net cost of production as well.

The record of debit and credit transactions indicates that in certain electric power plants the handling of accounts is in an unsatisfactory state, as can be seen from Table 4.

Table 4

In Millions of Rubles)

	Other Debtors		Contested Debts		Losses Through Deficiencies	
	Absolute Sum on 1/1/47		Absolute Sum on 1/1/47		Absolute Sum on 1/1/47	
	Increase in Absolute Figures for 1946		Increase in Absolute Figures for 1946		Increase in Absolute Figures for 1946	
Glavtsentrenerg	15.5	5.0	2.6	0.5	0.4	0.4
Glavyushenerg	10.4	-	3.1	1.0	0.8	0.7
Glavvostokenerg	5.1	-	1.8	0.4	0.2	0.2
Glavuralenerg	3.0	1.2	1.7	-	0.4	0.3
Mosenerg	10.8	4.6	4.4	1.0	0.5	0.2

An exceptionally large increase in accounts receivable is to be noted in the Glavtsentrenerg and Mosenerg electric power plants, which increased even more during the first quarter of 1947. Accounts which were on the books for 6 months and more amounted to 64 percent of the total accounts receivable at Mosenerg and 54 percent of those at Glavtsentrenerg.

The cause of this increase in accounts receivable and the delays in liabilities is the poor quality of work by the accounting agencies in collecting debts and the failure to keep documentary records of the output of work and services. For all power-plant systems in 1946, a total of 3,113,000 rubles were written off as losses due to the statute of limitations and a total of 4,614,000 rubles were written off as bad debts.

An illustration of poor documentary recording is to be found in debit entries resulting from shortages in fuel deliveries, which involve large sums. Payment on these debit accounts is often denied by arbitration boards due to the one-sided character of the documents. In the end these

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debit accounts are written off as "bad debts."

It is interesting to note the increase in losses through deficiencies and misappropriation of funds which amounted to nearly 2 million rubles in 1946. The absence of proper and timely control on the part of rayon administrations and power trusts, as well as on the part of directors of enterprises, contributes to abuses and to the emergence of this type of loss. Now, for example, can we explain the embezzlement and squandering of 82,000 rubles by Arkhipov, chief bookkeeper of Tkvarchelgres, if not due to the lack of vigilance and control on the part of Comrade Chkheidze, director of this power plant? In the records of investigation a number of abuses are noted as having been committed by persons entrusted with the accounting and safeguarding of socialist property. All this points to the need for strengthening control work. However, the power systems failed to carry out the 1946 control plan.

The power systems' obligations to their creditors have also increased significantly, especially during the first quarter of the current year 1947. The total creditor liability amounted to 219 million rubles on 1 January 1947, and rose to 252,300,000 rubles on 1 March 1947, which is an increase of 33,300,000 rubles in 2 months.

The Glavtsentrenergoproekt enterprises are among the weakest in paying their debts and their inadequate realization of accounts receivable had a marked effect on their paying capacity and, in turn, on the augmentation of their obligations.

During 1946, the liability to other creditors by power systems of Glavtsentrenergoproekt rose from 7,400,000 rubles to 10,600,000 rubles, and during the same period the debt owed suppliers for nonpayment within the time period set by bills of lading, rose from 1,200,000 rubles to 7,700,000 rubles.

From this short analysis it follows that we must improve the work of exacting payments of accounts due and of liquidating liabilities, as well as improving the legal formulation of business transactions.

In conclusion, we must dwell on the general results of the financial work of power systems for 1946.

With a planned return of 281,200,000 rubles, the actual profit amounted to 441,700,000 rubles, that is to say, the planned profit was exceeded by 160,500,000 rubles. This excess was found in all main administrations and was due to factors unrelated to the actual work of the power systems:

(In Million Rubles)

Change in rates	278.7
Fines received for infractions of power consumption rules	81.4
Fines received for non-refundable condensate (Kondensat)	14.6
	3.5
Profits from auxiliary and subsidiary plants	
Fines received from block stations	5.5
Writing off of creditor liability	<u>5.4</u>

Total 398.1

The following factors exerted a negative influence on the fulfillment of the plan:

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	(In Million Rubles)
Expenditures above planned production costs (including price-rise factors)	166.5
Increase of turnover tax	6.0
Nonfulfillment of plan for power production	8.1
Losses from communal housing projects	13.4
Losses written off as "bad debts"	7.7
Fines paid out for nondelivery of power	12.4
Other losses	<u>14.5</u>
Total	228.6

We see, from an analysis of the execution of the plan, that success in fulfilling the plan was due to so-called extra-productive factors: the various kinds of fines received from consumers and, chiefly, the change of rates which came about as a result of supplying to consumers paying higher rates power in quantities greater than had been foreseen in the plan.

On the other hand, the results of productive activity by the electric power plants exerted a negative influence on fulfilling the plan.

The financial-economic indexes of the managerial activity of electric power plants bear witness to the inadequacy of introducing the basic principles of cost accounting in enterprises and power systems. These principles demand the formulation of a regime of strict economy which lowers the production costs and improves the accounting and payment procedures. The urgent requirement for a periodic check of account books is far from being met by all directors.

There is an improvement in conditions whenever the director of an electric power plant or the chief of a rayon administration makes use of accounting as an instrument for the operating supervision of the enterprise. Examples of good work in applying accounting analyses for the improvement of management are to be found in the Glavural Power System and, during the past months, in the Glavyuzh Power System.

The Zuyev GRES, the Kharkov GES No 4, the Odessa Power Combine, the Sevkaucasenergo, the Shakhty GRES and others, effected a marked improvement in their financial-economic indexes during 1946 and the first quarter of 1947.

Comrade Danilov, acting chief of the Mosenergo System, together with Chief Bookkeeper Strukov, are also introducing a systematic inspection of account books. However, they must still carry out extensive work in order to improve the economic position of the electric power plants of the power system.

The trusts and power systems which have fallen behind, especially the Glavtsentrenergo, must exert every effort to solve the economy problems, so that they may advance with those trusts and electric power stations which are foremost in that respect.

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